Latent advantage, complex challenges: Industrial policy and Chinese linkages in Ethiopia's leather sector

Deborah Brautigam a,*, Toni Weis b, Xiaoyang Tang c

a Johns Hopkins University School of Advanced International Studies, United States
b Center for International Private Enterprise, United States
c Tsinghua University, China

A R T I C L E   I N F O

Article history:
Received 23 October 2015
Received in revised form 27 May 2016
Accepted 19 June 2016
Available online xxxx

Keywords:
Industrial policy
Ethiopia
Leather
Value chains
Developmental state

A B S T R A C T

Industrial policy is back on the African policy agenda, with a number of countries following new strategies for rapid industrialization. None have done so more eagerly than Ethiopia. The present paper draws on Justin Yifu Lin's framework of New Structural Economics to assess Ethiopia's industrial policies and engagement in the leather industry. Making use of two rounds of semi-structured interviews (2012 and 2015) with all of the foreign firms and more than a dozen local firms in the leather sector, as well as other key stakeholders, it examines seven steps the government took to build the industrial policy: Create a high-level focus on the sector; make strategic use of international development partners; attract a “lead goose” (Chinese) in the footwear sector; build government capacity to support the sector; strengthen business associations; “shock-to-shape” upgrading; improve input supply. Ultimately, while government interventions have led to improvements across several steps of the value chain, the paper identifies a number of factors that have prevented the country from fully realizing a latent comparative advantage in the leather sector.

© 2016 Published by Elsevier Inc.

1. Introduction

Industrial policy is back on the African policy agenda, with a number of countries following new strategies for rapid industrialization. None have done so more eagerly than Ethiopia, which under the government of the Ethiopian Peoples’ Revolutionary Democratic Front (EPRDF) has modeled itself explicitly on the so-called East Asian development states. Embedded within a broader vision of radical political and economic transformation, its activist approach to industrial development seeks to turn the country into a regional manufacturing hub by fostering the growth of a select group of light industries.

Ethiopia’s accelerated rates of growth since the introduction of an industrial policy framework in the mid-2000s are widely seen as evidence that it has been successful in this regard. However, despite a slew of recent writing on the subject (Arkebe, 2015; Girum & Schaefer, 2015; Mulu, 2013), the actual effects of policies adopted to develop the manufacturing sector remain underexplored and are inferred from overall economic performance rather than determined empirically. This paper offers a more thorough examination of the Ethiopian industrial policy experience, focusing on a key target sector: the leather industry.

Leather footwear, gloves and other products are a low-entry light industry with considerable potential for employment, while the more capital-intensive leather processing would seem to allow scope for value-addition to Ethiopia’s very large livestock herds. The sector was selected for special attention in Ethiopia’s 2002 Industrial Development Strategy, a focus which was reaffirmed in subsequent
policy documents. By some measures, the sector is already successful, celebrated for the presence of a thriving footwear cluster that has withstood competition from Chinese imports and begun to move into exporting. Yet the scale was still relatively small and earnings modest. In spite of international interest and considerable government attention and effort, Ethiopia’s leather sector has not yet lived up to its full potential.

The present paper approaches this problem through the lens of Lin’s (2012) framework of New Structural Economics. It argues that, in line with Lin’s propositions, Ethiopia’s policy of agricultural development-led industrialization seeks to leverage the country’s existing endowment structure and prioritize labor-intensive light industries with significant linkages to the rural economy, such as the leather sector. However, while government interventions have led to improvements across several steps of the value chain, a number of factors have prevented the country from fully seizing this latent comparative advantage. The paper draws on the considerable published and unpublished literature on this topic as background, and makes use of two rounds of semi-structured interviews (2012 and 2015) with all of the foreign firms and more than a dozen local firms in the leather sector, as well as other key stakeholders.

2. New structural economics and the industrial policy debate

The argument that fundamental economic transformation requires more than governmental laissez-faire has regained considerable currency in academic and policy circles alike. Full consensus on the matter is a far way off, and debates remain within the literature on industrial policy itself (Hausmann & Rodrik, 2003, 2006; Lin & Chang, 2009; Stiglitz, Lin, & Monga, 2013). However, today’s discussions focus less on the question whether or not government intervention in markets is necessary for industrial development, and more on the ways and circumstances in which these measures can be beneficial.

Justin Lin’s framework of New Structural Economics, which seeks to chart a middle path between neoclassical orthodoxy and state dirigisme, makes two important suggestions in this regard (Lin, 2012: 15–25). First, Lin argues that any successful industrial strategy must be “sector-targeted,” i.e. focus on the promotion of a small number of strategic industries (Lin, 2014: 3). Functional interventions, which are aimed at improving the overall environment within which companies and industries operate, are relatively uncontroversial among economists.

However, Lin and other advocates of selective policies hold that unlocking structural transformation requires more than general measures to lower the cost of doing business. Strategies to promote industrial development must address the specific obstacles – technology gaps, patchy supply chains, insufficient scale – that prevent a particular sector from taking off, especially where the private sector’s capacity for coordination remains weak (Chang, 2009; Lin, 2012: 29–38; Whitfield, Therkildsen, Buur, & Kjær, 2015).

Ideally, selective interventions are not based on a blueprint, but on a learning process that responds to a changing sector. For example, first movers on the frontier of a targeted sector might receive special subsidies such as concessional loans. Later, specific taxes and subsidies might be used to nudge producers to upgrade or diversify. Governments can also reduce learning and transaction costs by forming apex coordination forums, requiring regular information exchanges with firms in the target sector, exposing firms to global product standards, or assisting with “matchmaking” between foreign firms with desired technology and local firms. While support for such an activist stance on industrial development is growing, it is far from unanimous. Critics continue to question whether government officials are better equipped to identify growth prospects than the companies themselves, and caution that the allocation of economic opportunities by bureaucrats has led to a waste of resources on failing projects and industries in the past (Economist, 2011).

Second, Lin argues that a successful industrial strategy must reflect the country’s factor endowment at a given moment. The selection of priority industries should follow the identification of the economy’s latent comparative advantages: sectors in which production costs are low by international standards, but where higher transaction and information costs prevent firms from gaining a competitive edge. In practice, this means that developing countries should study the experience of slightly more advanced countries with similar factor endowments, learn from their histories of moving up the value chain, and ready themselves to attract companies that might be moving offshore as wages and relative prices shift. Attempts to leapfrog this gradual process by investing in capital- and knowledge-intensive industries at an early stage are likely to lead to expensive dead ends.

To Lin, basing a country’s industrial strategy on its comparative advantages (and revising it as the latter evolve over time) ensures that government interventions remain market-conforming. Critics such as Chang (2009), on the other hand, contend that structural change only becomes feasible where industrial policies challenge a country’s current resource endowment. Chang argues that developing countries that focus exclusively on industries with relatively low added value are unlikely to catch up with more advanced economies, and instead risk entrenching the gap between them. Governments should therefore focus on rapid technological upgrading, facilitating access to markets that may seem beyond the capacity of domestic capitalists. This requires a more distortionary set of measures, such as the protection of infant industries and the manipulation of relative factor prices (Lin & Chang, 2009).

Both debates on which the New Structural Economics touches – whether industrial policies should be functional or sector-based, and whether they should follow or defy comparative advantage – are relevant for an evaluation of the Ethiopian experience. The rationale behind the identification of target industries, such as the leather sector, followed the country’s perceived comparative advantage in labor-intensive industries with close links to agriculture, such as the leather sector. However, Ethiopia also saw considerable state investment in import-substituting industries such as cement, sugar, and fertilizer, moves that showed a willingness to explore areas outside the country’s core comparative advantage. Similarly, while those policies that could be termed functional – the construction of roads and hydroelectric plants, the expansion of vocational and higher education – have been widely praised, the

Please cite this article as: Brautigam, D., et al., Latent advantage, complex challenges: Industrial policy and Chinese linkages in Ethiopia’s leather sector, China Economic Review (2016), http://dx.doi.org/10.1016/j.chieco.2016.06.006
دریافت فوری متن کامل مقاله

<table>
<thead>
<tr>
<th>ISI Articles</th>
<th>مرجع مقالات تخصصی ایران</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ امکان دانلود نسخه تمام متن مقالات انگلیسی</td>
<td>✓ امکان دانلود نسخه ترجمه شده مقالات</td>
</tr>
<tr>
<td>✓ پذیرش سفارش ترجمه تخصصی</td>
<td>✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله</td>
</tr>
<tr>
<td>✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله</td>
<td>✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب</td>
</tr>
<tr>
<td>✓ دانلود فوری مقاله پس از پرداخت آنلاین</td>
<td>✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات</td>
</tr>
</tbody>
</table>